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Carbon Border Adjustment Mechanism (CBAM)

The Carbon Border Adjustment Mechanism (CBAM) represents one of the key elements of the European Union’s “Fit for 55” package, and shall help realising the EU’s ambitious target of a 55% reduction in carbon emissions compared to 1990 levels by 2030, and to become a climate-neutral continent by 2050.

The objective of the CBAM is to prevent that the greenhouse gas emissions reduction efforts of the EU are offset by increasing emissions outside its borders through relocation of production to non-EU countries or increased imports of carbon-intensive products. The mechanism is therefore supposed to prevent from a carbon leakage. Practically speaking, the CBAM will be a tax on the importation of carbon-intensive products from outside the European Union.

The CBAM in a nutshell

CBAM is a new topic that will have a significant impact on businesses



What is the purpose of this regulation?

Level the playing field to protect domestic production

Currently there are approx. 11,000 manufacturing facilities of the covered raw materials in the EU that are subject to the European Trading System (“ETS”).

There are many more producers outside of the EU that are subject to other (often lower cost) regimes. These organisations have a competitive advantage – this advantage will increase as the EU increases the price of carbon.

ETS in brief: businesses purchase allowances for carbon related emissions. The taxpayer surrenders these allowances in respect of every tonne of emissions released for the year in question.



What is the mechanism?

Ensure everyone pays the same price for carbon

By requiring customers of these “other producers” to pay an additional charge, the EU levels the playing field, protecting domestic production without damaging the competitiveness of the local market.



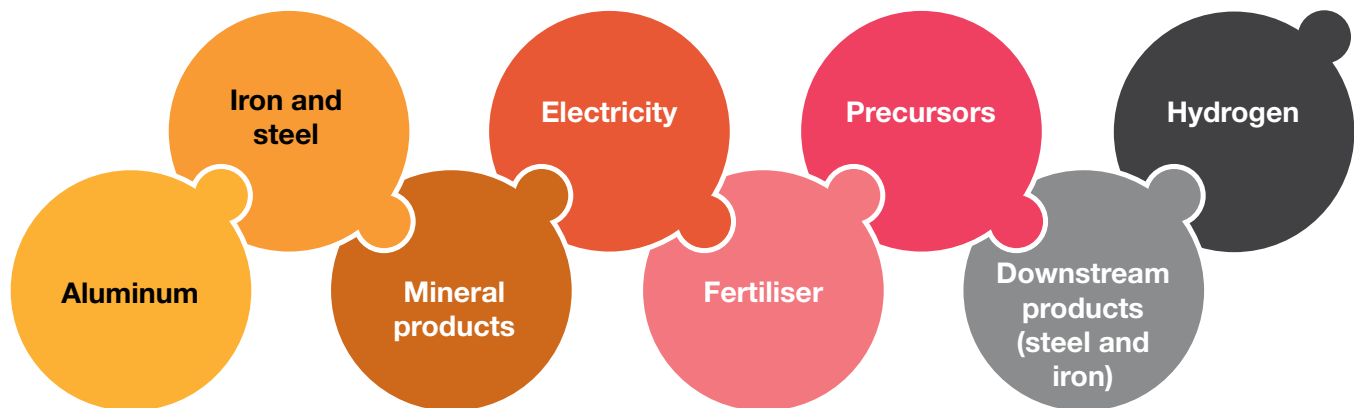
Who is affected by CBAM?

Business partners of these “other producers”

1. Directly impacted	Those in scope of CBAM have this additional reporting burden to facilitate this. The focus is on implementation of CBAM data collection and reporting – Impact Oct 2023.
2. Indirectly impacted	Assuming that importers pass through these additional CBAM costs, the customers of these “other producers” will ultimately pay a higher price for their raw materials, removing their arbitrage opportunity. The focus is on secondary factors (supply chain, valuations, margins) – Impact 2026+

CBAM Scope

All companies that will import carbon-intensive products from non-EU countries into the EU will likely be affected by the CBAM and must register as a declarant for CBAM purposes. The proposed product categories for the scope of CBAM are aluminum, iron and steel, mineral products, fertiliser, electricity, hydrogen, precursors and downstream products made of steel and iron (an extension to further product such as chemicals and polymers likely in the future).



Your need for action

The importers of those goods into the EU will have to comply – as of October 2023 – to the following obligations:



- (1) Import products and collect CBAM data: for each type of product, the imported quantity, the embedded emissions, and the carbon price paid in the country of origin are to be collected from your non-EU suppliers.



- (2) Submit a CBAM report on a quarterly basis.



- (3) As of 2026, declarants must consider these additional steps and the associated financial impact:

- a. Purchase CBAM certificates: the price of these certificates will be equal to the carbon price set by the EU ETS and be published on a weekly basis.
- b. Verify the embedded emissions: the collected and calculated data on embedded emissions is to be verified by an accredited verifier.
- c. Submit a CBAM report and the CBAM declaration and surrender the CBAM certificates: by 31 May of each year, the collected and verified data is to be submitted in a CBAM declaration. The CBAM certificates that correspond to the declared embedded emissions are to be surrendered for the preceding year

Consequently, there will be a variety of obligations that importers must comply with. This includes, among others, the gathering of CBAM relevant data from suppliers, the preparation of CBAM verification reports and CBAM declarations etc.

Please reach out to us if you'd like to learn in more detail how the CBAM will function and how it will likely affect you under different scenarios. Our product and service portfolio ranges from quantitative impact analyses to our technology-powered Carbon Pricing Reporter. Together, we'll get you up to speed on the upcoming CBAM and ensure your smooth transition into efficient carbon emission reporting.